The Levy Economics Institute of Bard College

Summary

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Contents

Scholars by Program

The State of the U.S. and World Economies, and Strategic Analysis

WYNNE GODLEY, Distinguished Scholar
CLAUDIO H. DOS SANTOS, Research Scholar
DIMITRI B. PAPADIMITRIOU, President
ANWAR M. SHAIKH, Senior Scholar
GENNARO ZEZZA, Research Scholar
ALEX IZURIETA, Research Associate

The Distribution of Income and Wealth, and the LIMEW

EDWARD N. WOLFF, Senior Scholar
JAMES K. GALBRAITH, Senior Scholar
HYUNSUB KUM, Research Scholar
DIMITRI B. PAPADIMITRIOU, President
AJIT ZACHARIAS, Research Scholar
RUBABA ALI, Research Assistant
ASENA CANER, Research Associate

Gender Equality and the Economy

DIANE ELSON, Senior Scholar
RANIA ANTONOPOULOS, Research Scholar
DIMITRI B. PAPADIMITRIOU, President
NILÜFER ÇAĞATAY, Research Associate
MARIA SAGRARIO FLORO, Research Associate
STEPHANIE SEGUINO, Research Associate

Economic Policy for the 21st Century

DIMITRI B. PAPADIMITRIOU, President
JAMES K. GALBRAITH, Senior Scholar
GREG HANNSGEN, Resident Research Associate
W. RAY TOWLE, Resident Research Associate
EDWARD N. WOLFF, Senior Scholar
L. RANDALL WRAY, Senior Scholar
AJIT ZACHARIAS, Research Scholar
PHILIP ARESTIS, Research Associate
JÖRG BIBOW, Research Associate
ROBERT E. CARPENTER, Research Associate
KORKUT A. ERTÜRK, Research Associate
STEVEN M. FAZZARI, Research Associate
MATHEW FORSTATER, Research Associate
THOMAS L. HUNGERFORD, Research Associate
WILLIAM H. LAZONICK, Research Associate
JAMEE K. MOUDUD, Research Associate
MARY O'SULLIVAN, Research Associate
JAMES B. REBITZER, Research Associate
MALCOLM SAWYER, Research Associate
WILLEM THORBECKE, Research Associate

Immigration, Ethnicity, and Social Structure

JOEL PERLMANN, Senior Scholar
DIMITRI B. PAPADIMITRIOU, President
YUVAL ELMELECH, Research Associate
ROGER WALDINGER, Research Associate

Scholars at Large

WILLIAM J. BAUMOL, Research Associate
BARRY BLUESTONE, Research Associate
ROBERT HAVEMAN, Research Associate
CHRISTOPHER JENCKS, Research Associate
THOMAS KARIER, Research Associate
SUSAN E. MAYER, Research Associate
BARBARA WOLFE, Research Associate

The Levy Economics Institute of Bard College, founded in 1986, is a nonprofit, nonpartisan research organization devoted to public service. Through scholarship and economic research it generates viable, effective public policy responses to important economic issues that profoundly affect the quality of life in the United States and abroad.

The *Summary* is published three times a year (Winter, Spring, and Fall) and is intended to keep the academic community informed about the Institute's research. To accomplish this goal, it contains summaries of recent research publications and reports on other activities.

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LETTER FROM THE PRESIDENT

To our readers:

This issue begins with a sensitivity analysis of public consumption, a major component of the Levy Institute Measure of Economic Well-Being (LIMEW), in relation to economic well-being in the United States. Senior Scholar Edward N. Wolff and Research Scholars Ajit Zacharias and Asena Caner show that their initial major findings remain intact using alternative estimation procedures. A notable observation is that the distribution of public consumption is pro-rich.

In another LIMEW study, Wolff and Zacharias examine economic well-being by region and in light of the 2004 presidential election. The average households in the South and Northeast were the least and most well-off, respectively. Some disappointing findings are that inequality was greater in 2001 than in 1989 and there was growing polarization between the very rich and the very poor. Further findings are that the Blue states lead the Red states in terms of well-being and the gap between the states widened during George W. Bush's first term in office. Therefore, it is surprising that the Red states continued to support the incumbent president despite an absolute and relative loss of money income.

Under strategic analysis, Senior Scholar Anwar M. Shaikh, Research Scholars Claudio H. Dos Santos and Gennaro Zezza, and I use the Levy Institute's macro model to examine the latest trends in the financial balances of the private, government, and foreign sectors of the U.S. economy. We find several signs that the 4-percent growth rate in 2004 will decline, including a record external and private sector balance. If rising interest rates and debt burdens continue, debt service-to-income ratios will become unsustainable and lead to a jump in personal bankruptcies and a sharp drop in consumer spending. If business spending is stimulated by policy initiatives, however, it is possible to maintain growth and employment while avoiding both debt increases and foreign exchange crises.

Four working papers are included under our distribution of income and wealth program. Andrea Brandolini, Luigi Cannari, Giovanni D'Alessio, and Ivan Faiella study the distribution of household wealth in Italy in the 1990s and find the same highly asymmetric profile as other countries and higher inequality by the end of the decade. Caner, Wolff, and Eric Parrado investigate occupational and industrial mobility in the United States and conclude that human capital plays an important role in determining the pursuit of new work. They find that changing occupations or industries leads to lower earnings, there are racial differences in earnings, and the gender wage gap diminishes over time. Research Associate Yuval Elmelech studies child poverty in the United States and finds that parental education and work patterns are key to understanding racial and ethnic variations in child poverty, and that these patterns play a critical role in shaping poverty differentials along immigration lines. Policies boosting full-time employment could narrow the racial/ethnic gap in child poverty, especially among blacks and Puerto Ricans, he says. Research Scholar Rania Antonopoulos and Research Associate Maria S. Floro investigate savings and asset ownership within households in Bangkok, Thailand. Their findings suggest that low-income and poor households experience different levels of asset poverty. An interesting finding is that women in the bottom half of the income distribution have more financial assets than men do, while the reverse is true in the highest decile.

Two public policy briefs and a policy note by Senior Scholar L. Randall Wray are included under the federal budget policy program. In the briefs, Wray takes exception to recent interest rate hikes by the Federal Reserve and he outlines the flaws in the Fed's thinking that have led to frequent policy mistakes. He sees little evidence of wage or price inflation and notes that fiscal policy has tightened since midyear 2003. The interest rate hikes are, at best, premature and it is time for a less preemptive Fed policy and a new approach to monetary policy, he says. In the policy note, Wray objects to the notion that Social Security faces financial Armageddon and maintains that both the private and government sectors will have to put into place the infrastructure that will be needed in an aging society. Another policy note by Research Associate Mathew Forstater proposes a Public Service Employment (employer of last resort) program based on principles of functional finance to address the problems of modern capitalism, which fail to provide full employment, enough high-quality jobs, or ecological sustainability.

A working paper by Shaikh and Research Associate Jamee K. Moudud under explorations in theory and empirical analysis develops a methodology for measuring economic capacity (potential output) that adjusts for cyclical fluctuations and conjunctural events.

As always, I welcome your comments and suggestions.

Dimitri B. Papadimitriou, *President*

INSTITUTE RESEARCH

Levy Institute Measure of Economic Well-Being

How Much Does Public Consumption Matter for Well-Being?

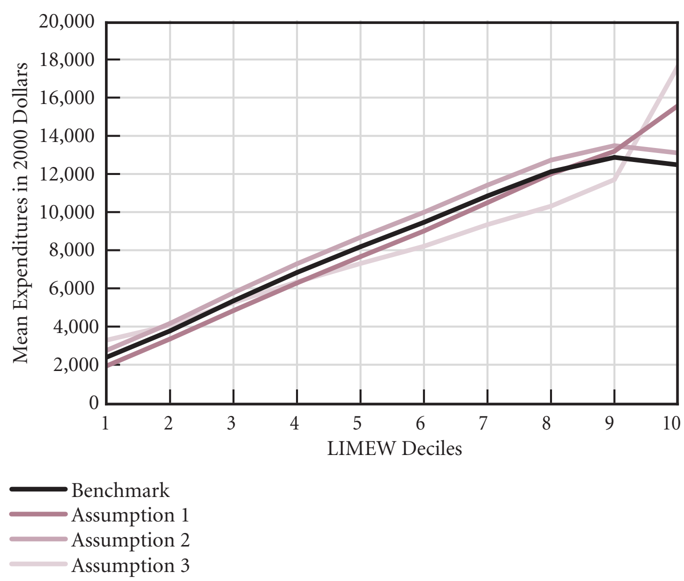
EDWARD N. WOLFF, AJIT ZACHARIAS, and ASENA CANER
Levy Institute Measure of Economic Well-Being, December 2004
http://www.levy.org/pubs/limew1204.pdf

In response to questions about the sensitivity of LIMEW estimates, Senior Scholar Edward N. Wolff of New York University and Research Scholars Ajit Zacharias and Asena Caner explore the sensitivity associated with imputing the value of public consumption, which is a major component of the LIMEW. The authors consider alternative assumptions regarding three components of public consumption: general public consumption, highways, and schooling. New calculations for 1989 and 2000 show that their initial major findings remain intact using alternative estimation procedures: there is a positive correlation between public consumption and the LIMEW, overall inequality is higher in 2000 than in 1989, and public consumption reduces inequality. They conclude that government provisioning of amenities plays an important role in sustaining living standards and should be included in a measure of economic well-being.

The authors note that a distinctive feature of the LIMEW is that it includes an estimate of public consumption. They also note that there are serious conceptual and measurement problems when public expenditures are integrated into a measure of well-being. The authors explore the sensitivity of their key findings about public consumption to changes in benchmark assumptions using three steps: (1) expenditures are estimated by function and level of government; (2) government expenditures are allocated to the household sector; and (3) expenditures allocated to the household sector are distributed among households. A distinctive feature of their approach is that they do not consider all public provisioning as augmenting the consumption possibilities of households—government expenditures are split between household and nonhousehold sectors based on assumptions derived from empirical information and judgment calls. The authors distinguish between two major categories of public consumption: general (distributed equally among persons) and specific (distributed according to household characteristics). Household usage patterns are based on summary information from other surveys and the set of household characteristics reported in the Annual Demographic Survey, which is their main data source.

In the benchmark assumption, expenditures incurred in provisioning are distributed equally among individuals. In Assumption 1, expenditures are distributed according to money income. In the benchmark assumption, 60 percent of expenditures on highways is allocated to the household sector. In Assumption 2, highway expenditures are distributed according to household shares in consumption expenditures. In the benchmark assumption, all government expenditures on schooling are allocated to households with public-school students who

Figure 1 **Public Consumption under Benchmark and Alternative Assumptions, 2000**



Notes: Benchmark refers to the standard assumptions in the LIMEW.
Assumption 1 distributes general public consumption by household money income.
Assumption 2 allocates entire expenditure on highways to the household sector and distributes indirect benefits by shares in consumption expenditures.
Assumption 3 splits the expenditure on schools between student and capitalist benefits, and distributes capitalist benefits according to capitalist income.

Source: Authors' calculations

are the direct users of educational services. In Assumption 3, a portion of schooling costs are allocated to other beneficiaries, and the authors account for the indirect benefits accruing to capitalists and the differential benefits accruing to students. Public consumption is subsequently calculated by changing the assumption regarding one component while holding the other components constant.

The results indicate that there is a positive correlation between public consumption and the LIMEW under the benchmark and alternative assumptions (Figure 1). Assumption 1 produces a stronger correlation between public consumption and the LIMEW across deciles than under benchmark assumptions. The additional amount of highway expenditures that is distributed under Assumption 2 does not alter significantly the distributional profile of overall public consumption. However, the distribution of schooling expenditures under Assumption 3 produces quite different results from those produced by the benchmark case; in particular, the top and bottom deciles are the beneficiaries to a much greater degree (e.g., there are more households with school-age children in the upper deciles, and there is the skewed distribution of capitalist income at the very top of the distribution).

A notable finding is that the distribution of public consumption is mildly pro-rich under the benchmark assumptions and strongly pro-rich under Assumptions 1 and 3. Other notable findings are that public consumption falls as a percentage of the LIMEW in the higher deciles and that the top decile experienced the fastest growth in public consumption and the LIMEW between 1989 and 2000 (Figures 2 and 3).

The authors also examine how three key demographic groups fare with respect to public consumption under the alternative assumptions in 2000. Relative to the benchmark estimates, disparities were similar under Assumptions 1 and 2, but notably different under Assumption 3 owing to the disproportionate accrual of capitalist benefits from schooling expenditures to whites, married couples, and the elderly. The direction of the disparity, however, was the same under all assumptions: in terms of the ratio of mean values of public consumption, nonwhites are greater beneficiaries than whites; single female–headed families receive more than married-couple families; and the elderly receive less than the nonelderly.

Figure 2 **Ratio of Public Consumption to the LIMEW, 2000**

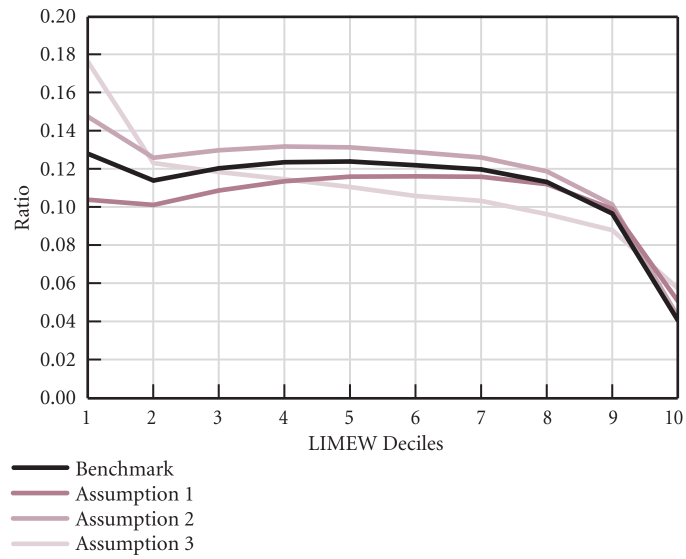
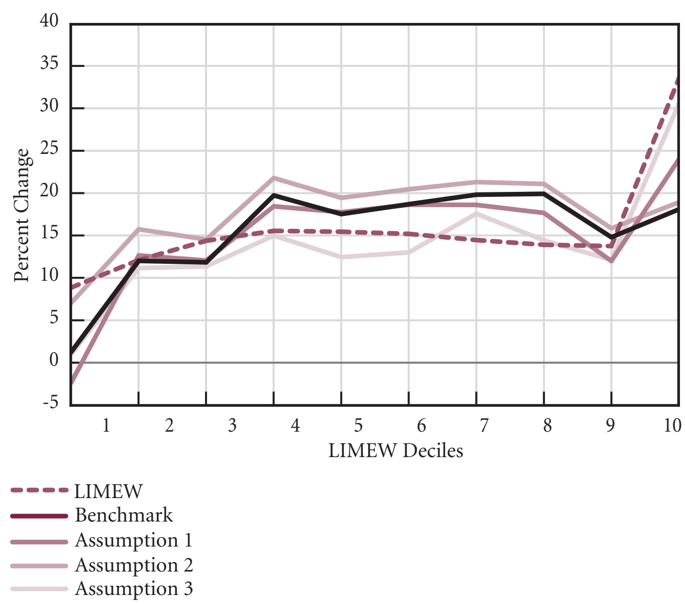


Figure 3 **Change in Mean Public Consumption and Mean LIMEW, 1989–2000**



Notes for Figure 2 and Figure 3: Benchmark refers to the standard assumptions in the LIMEW. Assumption 1 distributes general public consumption by household money income.
Assumption 2 allocates entire expenditure on highways to the household sector and distributes indirect benefits by shares in consumption expenditures.
Assumption 3 splits the expenditure on schools between student and capitalist benefits, and distributes capitalist benefits according to capitalist income.

Source: Authors' calculations

Economic Well-Being in U.S. Regions and the Red and Blue States

EDWARD N. WOLFF and AJIT ZACHARIAS

Levy Institute Measure of Economic Well-Being, March 2005
http://www.levy.org/pubs/limew0305.pdf

Senior Scholar Edward N. Wolff of New York University and Research Scholar Ajit Zacharias use the official and Levy measures to examine economic well-being in the United States from 1989 to 2001 according to four regions identified by the U.S. Bureau of the Census: Northeast, Midwest, South, and West. In light of the 2004 presidential elections, they also discuss patterns of well-being in the so-called Red and Blue states, where the electoral majority favored George W. Bush and John Kerry, respectively.

The authors find that, in any given year, the relative levels of well-being appear to be quite similar, irrespective of the measure of well-being. They also find that disparities in well-being among population subgroups and across regions depend on the yardstick used for measuring well-being, a finding that concurs with their previous analysis of the nation as a whole. The most disappointing findings of the study are that inequality was greater in 2001 than in 1989, and that there was growing polarization between the very rich and the very poor, by all measures of well-being and in all regions. On a more positive note, with the exception of the Northeast, there was a decline in disparity by race, driven largely by falling disparities in base income and income from wealth.

The authors note that although the 1990s are widely regarded as an exceptional period of economic growth, rapid growth (the "roaring nineties") was confined to the latter half of the decade. They also note that even though 2001 was a recession year, the U.S. unemployment rate was lower in that year than in 1989, and this pattern held true for all regions except the West. They further note that the median value of the LIMEW is larger than the official measures—money income (MI) and extended income (EI)—and this pattern holds for all regions.

The largest difference across measures was for the West in 1989, where the median was higher than the national average by 2 percent, according to the LIMEW, and by 7 percent, according to MI or EI. Throughout the 1989–2001 period, the average household in the South was the least well-off by all measures (90–93 percent of the national average), while the Northeast was the most well-off (108–113 percent of the national average). The Levy measures show much higher rates of growth than MI or EI because of the rapid growth in the Institute's measure of income from wealth relative to income from wealth included in other measures.

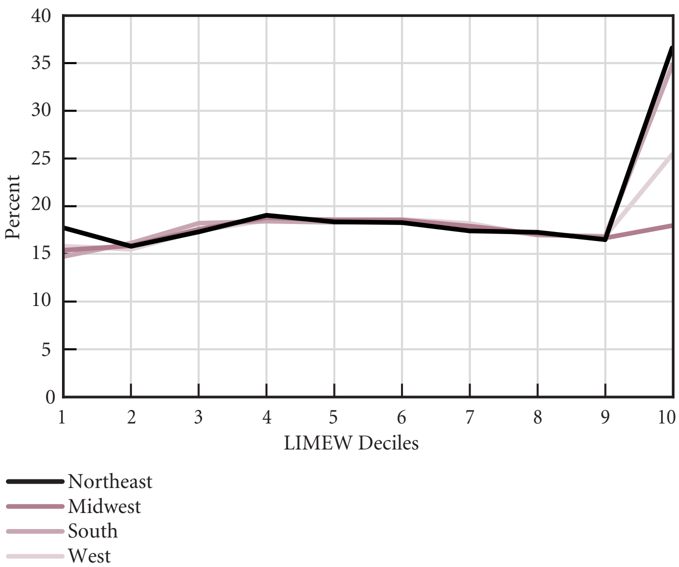
The mean values of economic well-being display the same hierarchy among the regions as the median values of the LIMEW and EI. While the relative slippage of the Northeast between 1989 and 2001 was accompanied by an absolute decline of median MI, the mean value of MI showed a robust growth of 11 percent, suggesting a growing inequality in the distribution of money income. The LIMEW and EI measures show that the contribution of net government expenditures to the growth in the mean value of well-being was lower in 2001 than in 1989, with the exception of the Northeast, according to the LIMEW.

The national decline in racial disparity between 1989 and 2001 was driven largely by falling disparities in two components of the LIMEW: base income and income from wealth. However, nonwhites in the Northeast did not benefit from this favorable development, as the disparity widened from 0.81 to 0.78. Married-couple families have the highest average level of well-being, followed by families headed by single males and then by those headed by single females. This order is true for the nation as a whole and for all four regions. According to the LIMEW, the elderly lost some ground relative to the nonelderly as a result of a reduction in the relative advantage of the elderly with respect to income from wealth and government transfers. Central city residents in the Northeast and Midwest fared poorly compared with suburbanites, by a wider margin than their counterparts in the South and West, owing mainly to substantially lower base income and lower income from wealth and value of household production. The gaps in economic well-being between suburbanites and rural residents widened in the Northeast and West, and appears to be driven by falling relative base income and income from wealth.

The Northeast experienced the greatest increase in inequality, while the Midwest experienced the lowest, mainly as a result of the rate of change in the period between 1989 and 1995. The authors observe that the total change in the Gini coefficient for the Midwest and the rest of the United States moved in opposite directions between 1989 and 1995, owing primarily to the decline in the contribution of income from wealth in the Midwest. The higher increase in inequality in the Northeast between 1989 and 2001 was driven by the higher growth in the share of income from wealth.

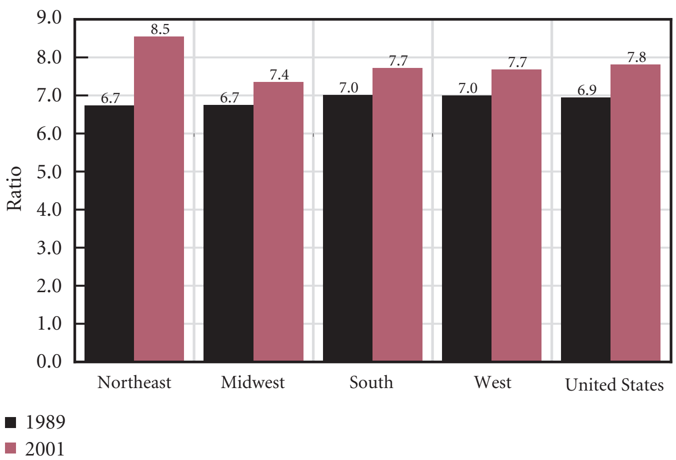
Figure 1 presents estimates of economic well-being by region and decile on the basis of the LIMEW. A striking observation is that the growth in economic well-being was uniform for households in the second through ninth deciles in all regions. The figure confirms the trend toward greater inequality indicated by the Gini coefficient: the top decile experienced the fastest growth in economic well-being in all regions except the Midwest, where the growth in the LIMEW for the top decile was similar to that of the other deciles.

Figure 1 **Percentage Change in the LIMEW by Region and Decile, 1989 to 2001**



Source: Authors' calculations

Figure 2 **LIMEW Ratio of 95th to 10th Percentiles, 1989 and 2001**



Source: Authors' calculations

The polarization between the very rich and very poor also grew in all regions between 1989 and 2001 (Figure 2). The least well-off U.S. household in the top 5 percent of the LIMEW distribution was seven times better off than the most well-off household in the bottom 10 percent of the distribution in 1989, but eight times better off in 2001. The authors' examination of other percentile ratios also shows an increase in polarization, irrespective of the measure of well-being.

In their review of economic well-being and voting patterns, Wolff and Zacharias find that the Blue states lead the Red states in terms of well-being. In 2001, the ratio of median values between the Red and Blue states was 88 percent for the LIMEW, 87 percent for EI, and 86 percent for MI. Although the gap between the states narrowed between 1989 and 2001, it widened from 86 percent to 84 percent during Bush's first term in office according to MI.

A breakdown of economic well-being by measure, component, and state groupings shows that, according to the LIMEW, net government expenditures were positive in the Red states but negligible in 1989, and negative in 2001, in the Blue states, where residents paid substantially more taxes (the average tax rate was 31 percent versus 27 percent in the Red states). While there was much higher growth of mean wealth in the Blue states over the 1989–2001 period, the Red states experienced a greater gain in government transfers, a smaller gain in public consumption, and a slightly lower decrease in taxes than the Blue states.

There were prominent differences between the Red and Blue states in terms of racial composition of householders. The Red states had a larger African-American population compared to the Blue states (14 percent versus 10 percent in 2001) but the Asian population was larger in the Blue states (5 percent versus 2 percent). Most notably, the "all others" nonwhite group (mainly Asians) in the Red states grew the most in well-being among all groups in both sets of states, so that there was virtual parity with whites in the Red states in 2001.

Householders in all race and ethnic groups were better off in the Blue states, but there was no significant improvement in disparities between 1989 and 2001. In 1989, overall inequality in well-being was higher in the Red states than the Blue states according to all three measures of well-being. However, between 1989 and 2001, inequality advanced considerably more in the Blue states than the Red states, so inequality was greater in the Blue states in 2001.

The findings raise interesting questions about the relationship between the trends in economic well-being and the outcome of the last two presidential elections. The Red states continued to support the incumbent president despite an absolute and relative loss of money income during his first term, and minority voters in the Blue states continued to support the Democratic party overwhelmingly despite no improvement in racial disparity between 1989 and 2001. The authors suggest that noneconomic factors, such as national security and values, might have played a decisive role in shaping the 2004 presidential election.

Strategic Analysis

How Fragile Is the U.S. Economy?

DIMITRI B. PAPADIMITRIOU, ANWAR M. SHAIKH, CLAUDIO H. DOS SANTOS, and GENNARO ZEZZA

Strategic Analysis, March 2005

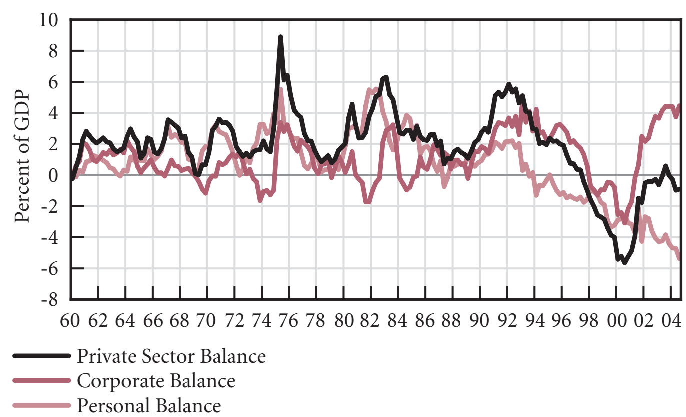
www.levy.org/pubs/stratan-mar-05.pdf

In 2004 the U.S. economy experienced growth rates higher than 4 percent. Using the Levy Institute's macro model, President Dimitri B. Papadimitriou, Senior Scholar Anwar M. Shaikh of New School University, Research Scholar Claudio H. Dos Santos, and Research Scholar Gennaro Zezza of the University of Cassino, Italy, find several signs that the U.S. growth rate will decline: debt-service ratios are close to all-time highs; consumers are heavily in debt; consumption spending cannot continue in light of weak earnings increases over the past year; greatly expanded budget deficits cannot continue; business spending (investment growth) has begun to decline; and the growth rate of real corporate profits will likely fall. Moreover, the current account balance was at a new all-time record in November 2004 (in spite of a fall in real exchange rates) and the relative growth prospects of U.S. trading partners are poor (i.e., lower export demand will not improve the U.S. current account deficit). The authors warn that if rising interest rates and debt burdens continue, debt service-to-income ratios will become unsustainable and lead to a jump in personal bankruptcies and a sharp drop in consumer spending.

The authors examine the latest trends in the financial balances of the private, government, and foreign sectors. They find that the private sector returned to a deficit status in the third quarter of 2004 after rapidly moving toward balance beginning in 2001. They note that the private sector deficit over the last seven years has been an important driving force in the expansion of the U.S. economy (Figure 1), but there was a concomitant rapid buildup of household debt (Figure 2). Although government spending took up the slack from the private sector in order to sustain economic growth, it mirrors the current account deficit, which reached an estimated record of approximately 6.0 percent of GDP in 2004.

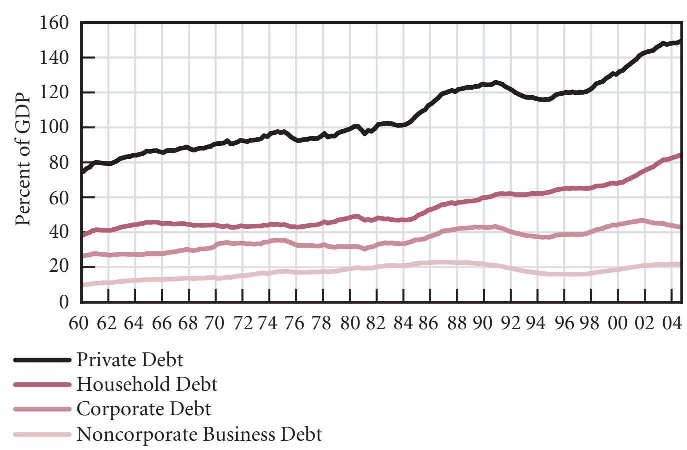
The authors analyze the interactions of debt, deficits, and growth and find an extraordinary growth in household debt relative to disposable income (especially mortgage debt). The overall debt burden by component is shown in Figure 3. Although the sum of mortgage and nonrevolving debt service has been fairly stable over the last 25 years, credit card and similar

Figure 1 **Private Sector Balance and Its Components**



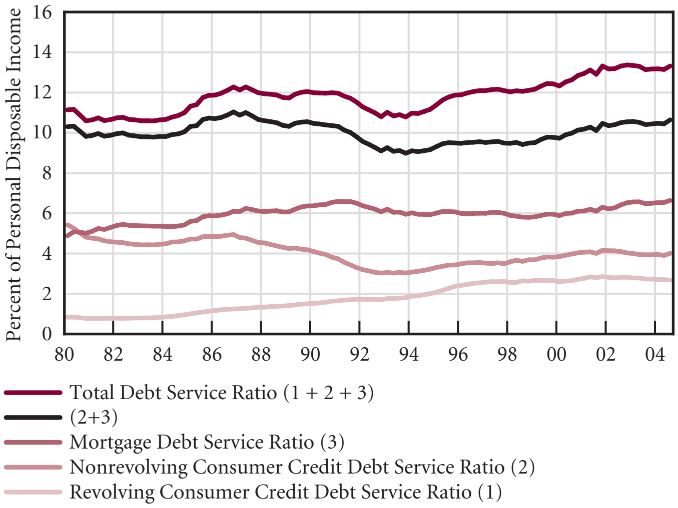
Sources: BEA and authors' calculations

Figure 2 **Private Sector Debt and Its Components**



Sources: Flow of Funds and authors' calculations

Figure 3 Debt Service Components Relative to Personal Disposable Income



Source: Dos Santos et al. forthcoming

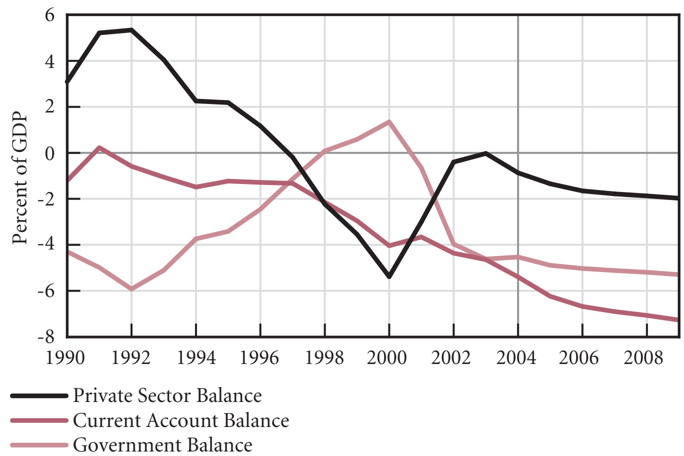
revolving debt service has increased greatly. Papadimitriou et al. maintain, however, that the era of falling interest rates is over for the foreseeable future, and cite the rise in the annual federal funds rate from 1.0 percent in June 2004 to 2.5 percent in February 2005.

The authors evaluate the effect of rising interest rates on household borrowing and spending under various scenarios. The baseline scenario assumes no change in the current fiscal stance: real government expenditures grow at 3 percent per year in line with the expected growth rate of the economy; tax rates remain unchanged; there is no further devaluation of the U.S. dollar or higher inflation; and interest rates increase by 25 basis points for each quarter of 2005, and remain stable thereafter. The household sector stabilizes its borrowing at about 2.3 percent of income, while the business sector slowly increases its borrowing rate.

The results of the baseline scenario are shown in Figure 4. There is a stable government deficit relative to GDP; the private sector runs a net deficit approaching 1.8 percent of GDP by 2006; and the economy grows at a rate of 3.6 percent in 2005 and above 3 percent for the rest of the simulation period. The authors believe, however, that this scenario is unsustainable because of problems with record external and private sector balances. These events could precipitate a dramatic flight from the dollar and a wave of personal bankruptcies, so the authors consider three less extreme scenarios.

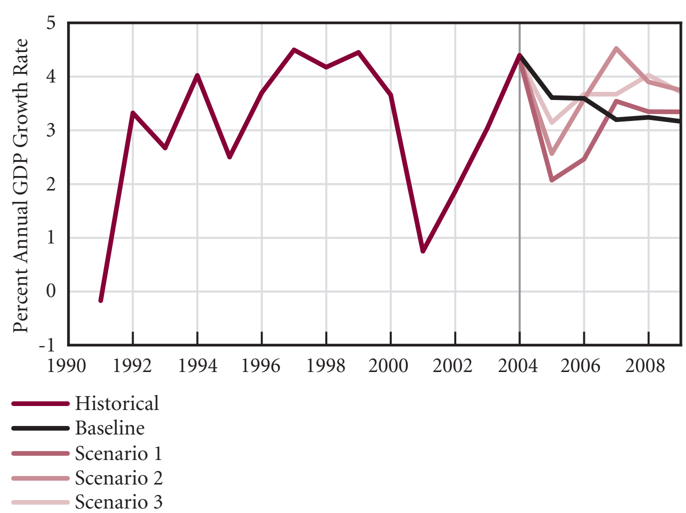
In Scenario 1, households maintain the current debt service ratio in the face of rising interest rates. Borrowing (relative to income) declines from 8.0 percent to about 2.3 percent of disposable income in 2005. The private sector returns to surplus, the current account balance stabilizes at 5 percent of GDP, and the government deficit increases to above 5.5 percent. The authors note that any effort to balance the budget by reducing government spending would make GDP growth fall further and unemployment rise. The results for this scenario are that GDP growth falls substantially to about 2 percent in 2005, before rising to 2.5 percent in 2006 and above 3 percent thereafter (Figure 5). A moderation in household debt behavior

Figure 4 Baseline. Main Sector Balances



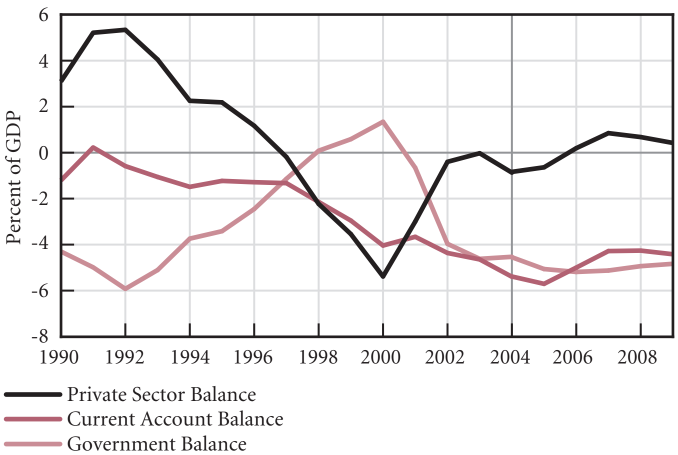
Sources: BEA and authors' calculations

Figure 5 Alternative Growth Paths for the U.S. Economy



Source: Authors' calculations

Figure 6 **Scenario 3. Main Sector Balances**



Sources: BEA and authors' calculations

results in accelerated government indebtedness, slowed growth, and increased unemployment.

In Scenario 2, there is an additional beneficial effect of a further drop in the value of the dollar (another 20 percent by 2006), which stimulates exports relative to imports and enhances GDP growth. The current account deficit falls to 4.6 percent of GDP by 2006, while the GDP growth rate improves relative to Scenario 1 (2.6 percent in 2005 and 3.6 percent in 2006). The sustained fall in the dollar, however, risks higher interest rates on Treasury bonds in response to slack foreign capital inflows, increases in the household debt service burden, lower business spending, and more international outflow of income.

In Scenario 3, business spending is stimulated by policy initiatives, such as reenacting the 50-percent tax allowance for purchases of new capital goods and the recently passed legislation to allow U.S. companies to repatriate foreign profits on favorable terms. The authors examine the consequences of a temporary increase in business borrowing to its previous peak level in 1998, along with the maintenance of total private sector borrowing at historic levels (as in the baseline case), which is accomplished by a reduction in household borrowing, debt, and debt service burdens. The ramifications include a surge in overall private sector borrowing, which raises GDP growth closer to the baseline scenario (3.2 percent in 2005 and higher thereafter), higher import growth, and a shift in the composition of domestic demand away from personal consumption toward business investment. Initially, the current account deficit rises slightly before falling to about 5 percent in 2006 and toward 4 percent thereafter, while the government deficit stays at about 5 percent (Figure 6). The results of this scenario show that it is possible to maintain growth and employment while avoiding both debt increases and foreign exchange crises.

Program: Distribution of Income and Wealth

Household Wealth Distribution in Italy in the 1990s

ANDREA BRANDOLINI, LUIGI CANNARI, GIOVANNI D'ALESSIO, and IVAN FAIELLA

Working Paper No. 414, November 2004

www.levy.org/pubs/wp414.pdf

A summary of this working paper appears in the write-up of the conference on international perspectives on household wealth, session 3, in the Winter 2004 *Summary*, Vol. 13, No. 1, p. 7.

Occupational and Industrial Mobility in the United States, 1969–1993

ERIC PARRADO, ASENA CANER, and EDWARD N. WOLFF

Working Paper No. 416, January 2005

www.levy.org/pubs/wp416.pdf

An indicator of the structural change that has taken place in the U.S. economy over the last three decades is the shift in the composition of employment among both occupations and industries. Eric Parrado of the Central Bank of Chile, Research Scholar Asena Caner, and Senior Scholar Edward N. Wolff of New York University investigate job changes by occupation and industry in the period from 1968 to 1993 using data from the Panel Study of Income Dynamics (PSID). They find that workers changed occupation and industry more frequently in the 1981–93 period than the 1969–80 period, that men changed jobs more frequently than women, and that men who changed occupations or industries had lower earnings than those who did not. In addition, younger and more educated workers changed occupation and industry more frequently, and this tendency rose over time.

The authors note that few studies have investigated occupational and industrial mobility. They also note that the two series of occupation and industry codes in the PSID for the 1969–80 period generate different pictures of absolute mobility; those differences result from (presumed) coding errors in the original files and sample selection rules imposed during the construction of new (retrospective) files. Therefore, the authors restrict their attention to individuals with both the original and new codes. Their main focus is to measure and analyze changes by occupation and industry, where changes are deemed to occur when workers shift from one occupation or industry to another without interruption (i.e., unemployment).

Parrado et al. employ a very broad classification of occupational (8) and industrial (11) categories in order to minimize the effect of coding errors. Their analysis excludes the self-employed and government workers, and focuses on wage and salary workers, and on the relationship between job tenure and occupational and industrial switching. Based on the authors' selection criteria, the original PSID files are reduced to 11,135 men and 6,937 women, the new files include 14,295 men and 8,429 women, and the 1981–93 sample includes 24,121 men and 16,649 women. Data variables include occupation, industry, real wages, experience, tenure, marital status, education, race, age, and category size by industry and occupation.

Using the original codes, the authors find that occupational mobility for men ranged between 15 and 20 percent during the 1969–80 period, and between 20 and 25 percent during the 1981–93 period. Using the new codes, mobility was lower (7–11 percent). Industrial mobility appears to increase over time according to the original codes, but to decrease over time according to the new codes. The authors conclude that general and specific human capital play important roles in determining the pursuit of new work.

The authors find that the growth of hourly earnings was substantially larger for people who changed jobs than for people who remained in the same jobs, and that the variance of hourly earnings was greater for women who changed jobs than for those who did not. They also find that women registered higher increases than men in real labor income during the 1981–93 period, which partially validates other findings showing that women experience more rapid on-the-job earnings growth than do men.

The authors use a logit regression to identify the determinants of occupational and industrial change and a standard earnings function to examine the effects of occupational and industrial change on earnings growth. The results of the logit estimates for industrial change were very similar to the occupational change regressions, with the exception of the 1969–80 sample for women, where the effect of education as a determinant for women to stay in the same industry was mixed. Other findings included the following: changing occupations or industries leads to lower earnings, but the extent of the decrease diminished over time; married men earn 10–15 percent more than unmarried men, while married women appear to earn less than unmarried women; racial differences in earnings are highly significant among men and women (e.g., the white-to-nonwhite gap exceeds 20 percent); and the gender wage gap diminished over time (women's wages rose from 82 percent of men's wages to 85 percent).

Determinants of Minority-White Differentials in Child Poverty

YUVAL ELMELECH

Working Paper No. 417, February 2005

www.levy.org/pubs/wp417.pdf

In 2000, almost 12 million children (16.2 percent) in the United States lived in poverty. According to Research Associate Yuval Elmelech of Bard College, immigration has profoundly transformed American society, and since immigrant families tend to be large, as well as diverse in structure, previous studies may not adequately reflect the economic well-being of children. He describes contemporary racial/ethnic variations in child poverty and analyzes the extent to which they are shaped by demographic and human capital attributes.

Using data from the Current Population Survey, which covers the 1993–2001 period, Elmelech studies child poverty during a decade of economic prosperity and large-scale migration. His analysis includes Asian and American Indian populations, and disaggregates the Hispanic population into three groups: Mexicans, Puerto Ricans, and Central and South Americans. The pooled sample encompasses 209,748 children under the age of 18 who live with at least one parent. In addition to racial/ethnic origin, three sets of independent variables are of special interest: child living arrangements, parental human capital and work patterns, and immigration status.

Elmelech uses multivariate analyses to assess the extent to which socioeconomic and demographic attributes shape racial and ethnic variation in child poverty, and a standardization technique to decompose poverty differentials between minority and white children. He finds that minority children are disproportionately represented among the poor. Puerto Rican children are most likely to live in poverty (45.4 percent), followed by black and American Indian children. Among Hispanics, Central and South American children are less likely to live in poverty (27.3 percent). White children are least likely to live in poverty (10.6 percent). Other findings include a substantial racial/ethnic differential in immigration status (e.g., almost one-half of Central and South American parents have resided in the United States for less than 10 years); more than half of black and Puerto Rican children live in single female–headed families; Asian children are more likely to live with married parents; and Mexican children are more likely to live in larger households, and they represent the youngest group (45.2 percent are less than six years old).

Measures of human capital and labor force participation reveal some striking disparities. Mexican children are nine times more likely than white children to have parents with less than a high school education. Puerto Rican parents are the least likely to engage in full-time employment, and they have a high unemployment rate (32.1 percent).

The author presents five models that draw on human capital and demographic explanations for racial and ethnic differences in child poverty. Logistic regression analyses predict that children of minorities are more likely to live in poverty (e.g., black children are four times more likely than white children to live in poverty). As expected, age, parental employment, and educational attainment are negatively associated with poverty. Immigration attributes seem to play a key role in shaping the economic status of Asian children, and there is a clear association between the number of years since families migrated to the United States and child poverty.

The results confirm the author's expectations that parental education and work patterns are key to understanding racial and ethnic variations in child poverty, and that these patterns play a critical role in shaping poverty differentials along immigration lines. Differences in parental work patterns appear to be a critical obstacle confronting minority children, particularly black and Puerto Rican children, as minority parents face difficulties in securing employment that guarantees sufficient remuneration. With the exception of the Asian population, the educational composition of minority parents is detrimental in shaping the minority/white gap in child poverty. Compositional differences in child living arrangements play a relatively marginal role in determining minority/white gaps in poverty.

This paper demonstrates a substantial and enduring racial/ethnic variation in child poverty rates across a range of socioeconomic and demographic characteristics, including parental employment and education, child living arrangements, and immigration attributes. The author's findings reinforce the view that policies boosting full-time employment could narrow the racial/ethnic gap in child poverty, especially among blacks and Puerto Ricans. Mexican children seem to be particularly vulnerable to the cumulative disadvantage of both compositional and return differentials, such as a relatively small number of two-earner families, the quality of workers, and institutional discrimination in the labor market. Elmelech suggests that future research on racial and ethnic inequality should consider the growing number of immigrant families and take into account their distinct demographic and socioeconomic characteristics.

Program: Gender Equality and the Economy

Asset Ownership along Gender Lines: Evidence from Thailand

RANIA ANTONOPOULOS and MARIA S. FLORO
Working Paper No. 418, February 2005
www.levy.org/pubs/wp418.pdf

Asset ownership disparities between men and women within households are not captured by most household-level studies. Research Scholar Rania Antonopoulos of New York University and Research Associate Maria S. Floro of American University investigate savings and asset ownership within households by gender in three urban, low-income (squatter) communities in Bangkok. They find that women own slightly more real assets, and more business-shop assets and jewelry, than do men. Women also save more in informal assets, such as rotating credit and savings associations, occupational groups, and cooperatives. Men own more vehicles than women, and have more financial assets in individual accounts.

The authors note that there is limited documentation of urban, low-income households, and that previous research has not examined assets among urban, informal-sector workers in low-income communities. They also note that growth of the informal economy and the persistence of poverty in urban areas enhance the need to understand gender patterns in asset ownership, which affect credit access, microenterprise earnings, and the consumption-smoothing abilities of households. They further note that gender-based norms influence patterns of saving.

The authors use data collected by American University researchers in cooperation with HomeNet, Thailand (a network of women's and community development organizations). The study uses information from multivisit interviews of 258 households during the period from June to September 2002, and focuses on 134 households that have both men and women members and at least one member engaged in home-based work or self-employed in the informal sector. The sample was randomly selected, and the study used the recall method, in which respondents answered questions pertaining to savings, asset ownership, asset pawning, and asset sales during a six-month period. Special attention was given to types of informal saving groups and formal financial institutions.

The authors find that the predominant forms of real assets owned jointly or individually by household members are jewelry and gold, household appliances, business-related assets, and transport vehicles. About 8 percent of respondents "owned" their dwellings (they were recipients of remittances), and 7 percent owned rural land, while no one owned urban land. These findings suggest that low-income and poor households are not homogeneous and that they experience different levels of asset poverty. The average value of total real assets ranged from 7,000 baht (tenth percentile) to about 200,000 baht (ninetieth percentile).

The authors suggest that asset ownership may be partly explained by the nature of employment or the income-earning activities of respondents. The majority of women (87 percent) work in the informal sector (e.g., microenterprises that require sewing machines or food vending carts), while a large proportion of men (41 percent) are employed in the formal sector (as wage or salaried employees). The majority of financial assets among poor households is held in informal savings. An interesting finding is that women in the bottom half of the distribution have more financial assets than men do, while the reverse is true in the highest decile.

The authors explore the influences behind asset ownership using a number of characteristics that represent differences in gender norms and the ability to accumulate wealth based on income. They find that gender affects one's sense of duty and perception of accepted behavior. In addition, differential access to education and gender-based patterns of employment and job segmentation in the labor markets can lead to differences in earnings.

Using a Tobit model, the authors' empirical analysis focuses on individually owned assets to test whether women own different levels and forms of assets than do men. They find that women tend to own more real assets than men, holding all else equal (this result was not statistically significant); a formal-sector job increases the value of individual real assets compared to an informal-sector job; higher household earnings lead to more real assets; women own less financial assets in individual accounts than do men; and older, more educated, and higher-income respondents, as well as those whose earnings are mainly used to purchase food, have more financial assets.

The authors state the need to explore the scope of their results and to have more data, especially at the national level. They hope that gender asymmetries in asset ownership will become a greater part of the discourse in academia and policy making.

Program: Federal Budget Policy

The Case for Rate Hikes: Did the Fed Prematurely Raise Rates?

L. RANDALL WRAY

Public Policy Brief No. 79, 2004

www.levy.org/pubs/ppb79.pdf

On June 30, 2004, the Federal Reserve initiated a series of interest rate hikes. According to Senior Scholar L. Randall Wray of the University of Missouri–Kansas City, the weak jobs and wages picture does not lend credence to the view that labor markets are overheating and driving inflation upward. In addition, there appears to be little evidence of actual or expected wage or price inflation. The Fed's policy change is, at best, premature, he says.

Wray reviews employment-population ratios, the number of private sector and part-time workers, weekly payrolls, and the number of government employees since 1970, as well as recent price and quantity indexes and real GDP growth by component. As of midyear 2004, 1 million fewer Americans held jobs than when President George W. Bush took office, and the average hourly wage had increased by only 2 percent in the previous 12 months, which was less than inflation. Overall personal income was flat after adjustments for taxes and inflation. All labor market indicators worsened rapidly when the recession hit in 2000, and the number of workers in part-time jobs rose steadily to 4.8 million in late 2003.

The author notes that any improvement in the past two years has been rather modest, and he concludes that the case for labor market tightness is weak in light of falling employment-to-population ratios. He also notes that much of the apparent recovery of labor markets in 2001–03 was due to government hiring, which has turned around sharply. Applying a Clinton-era employment-to-population ratio of 64.4 percent would mean an additional 4 million workers today. Wray estimates that the economy would have to add 325,000 jobs per month for the next year in order to reach this ratio, and that an additional 188,000 jobs per month would have to be created to absorb future labor force entrants. Therefore, it is conceivable that half a million jobs a month could be added over the next year without stretching the labor market.

Wray notes that the current recovery has not attained a degree of labor market tightness common in previous recoveries, and that the number of part-time workers who want full-time work has not diminished. At best, the economy is in the earliest stages of expansion and years away from full employment, he says. By most measures, the situation looks more like the "double-dip" and "jobless" recovery of George H.W. Bush.

The conventional view is that the Fed needs to act preemptively and with vigilance against the earliest signs of inflation, since monetary policy operates with long lags and, once under way, inflation is very difficult to eradicate. Wray points out that the Fed has repeatedly announced that there is no evidence of wage or inflationary pressures. Nevertheless, the Fed proceeded to raise rates in June 2004, when there was a uniformly downbeat picture of a slowing economy and moderating price increases (retail sales, auto sales, industrial production, wholesale prices, gasoline prices, and residential electric power prices all fell that month). Wray maintains that job growth could continue without generating wage-price inflation because of labor market slack, productivity growth, and abnormally high profit margins.

Wray reviews the Levy Institute macroeconomic team's sectoral balance approach, which emphasizes the necessary relationships among the government, private domestic, and foreign sectors of the U.S. economy. He observes that ramped-up government spending on defense from 2001 to 2003 gave a much-needed boost to demand (defense spending accounted for 27 percent of economic growth by mid-2003), and that the growth in the number of government employees helped to turn consumer spending around. Real output grew by almost 10 percent over the first three and a half years of the Bush presidency, and personal consumption grew by more than GDP. Both in terms of quantities purchased and prices paid, government spending led the recovery.

According to Wray, the fiscal stimulus from the Bush tax cuts plus the increase of military spending probably peaked in the last half of 2003. He observes that, by a number of measures, fiscal policy has tightened noticeably since midyear 2003, which has taken its toll on consumption and real GDP growth. Moreover, according to a July 29, 2004 report by the Labor Department, the cost of employee benefits climbed 1.8 percent compared with 2.4 percent in the previous quarter—a deceleration that countered the Fed's assertion that accelerating benefit costs were evidence that labor markets were on an inflationary path.

It is difficult to see why the economy needs higher interest rates now, as fiscal policy tightens, exclaims Wray. He warns that if the view held by many scholars at the Levy Institute is correct, the combination of attenuated fiscal stimulus and rising debt service burdens due to higher interest rates could be deadly.

The Fed and the New Monetary Consensus: The Case for Rate Hikes, Part Two

L. RANDALL WRAY

Public Policy Brief No. 80, 2004

www.levy.org/pubs/ppb80.pdf

In Public Policy Brief No. 79 (see p. 13), Senior Scholar L. Randall Wray of the University of Missouri–Kansas City observes that there is little evidence of actual or expected wage or price inflation, and he concludes that the Federal Reserve's action to raise interest rates in June 2004 is, at best, premature. In this brief, Wray outlines the flaws in the Fed's thinking that have led to frequent policy mistakes. He compares the present situation with that of 1994, when the economic environment was similar and the Federal Open Market Committee

(FOMC) raised interest rates, an action that ultimately proved unnecessary at best and counterproductive at worst. The Fed's philosophy is convoluted, says Wray, and it is time for a new approach to monetary policy.

Wray reviews minutes of recent meetings of the FOMC, its public pronouncements, and transcripts of secret discussions to identify the Fed's justifications for tightening policy. He lists six tenets of policy making common to both 1994 and 2004: transparency, gradualism, activism, low inflation as the only official goal, surreptitious targeting of distributional variables, and a "neutral" federal funds rate (FFR) as the policy instrument to achieve those goals. A neutral rate is a hypothetical level that neither stimulates nor impedes growth. Wray notes that a neutral rate varies across countries and through time, is uncertain, and cannot be recognized until it is achieved. Therefore, the Fed is hoping to hit an unseen target using an activist policy. He also notes that the neutral rate target bears a familial resemblance to the Fed's equilibrium "real" interest rate policy target, which did not correctly predict economic performance. He further notes that Japan's neutral rate must have been below zero—a rate that cannot be hit by policymakers—and concludes that neutrality in the United States must have been below 1 percent for most of the last four years. The neutral rate does not provide any additional useful guidance for policy formation, asserts Wray.

The author challenges the Fed's claim that it is only concerned with inflation and states that the Fed also targets asset prices and income shares and shows a strong bias against labor and wage-led inflation, even as it tacitly accepts profits-driven inflation. The Fed knows that its policies have distributional effects and it considers these in its policy deliberations, says Wray. The downside risks to raising debt service ratios at this point in the recovery could easily outweigh the benefits of enhancing the credibility of the Fed's inflation-fighting machismo.

In 1994 and 2004 the Fed was not projecting significantly tighter labor markets or higher inflation, but it raised rates based in large measure on the market's expectation and to enhance its credibility as an inflation fighter, says Wray. In 1994 the Fed also consciously tried to "prick" what it perceived to be an equity price bubble and avoid a financial market crash. However, the practice of clearly announcing rate targets and telegraphing policy changes did not mitigate the stock-market bubble or its 2000 crash. Hence, the assumption that transparency and gradualism would deflate financial bubbles appears to be incorrect, notes Wray. Moreover, the Fed's actions are contrary to its official position—i.e., making policy decisions free from political influence and staying out of debates about differential impacts of rate changes on different groups.

The Fed also recognizes that price increases have far outstripped labor compensation increases, a fact reflected in record profits accruing to owners. Therefore, today's inflation represents "profits inflation," or windfall gains to owners who have taken advantage of rising labor productivity or supply bottlenecks (a point emphasized by Chairman Alan Greenspan). There seems to be an asymmetric bias toward profit income and against wage income, and toward net interest recipients and against net debtors. The Fed raises interest rates at the first hint that labor markets are recovering and at a pace that financial markets can "handle," so that net creditors will receive the interest that is squeezed out of debtors. The Fed's belief ought to be modified, says Wray, because it is no longer clear that domestic wages can rise in the presence of low-wage, offshore competition.

Wray concludes that interest rate changes have distributional effects, which are complex and little studied, and that the Fed considers these effects in its meetings. He maintains that the FFR is not tightly linked to employment and unemployment, wage and price inflation, or investment and economic growth. It is ironic that greater transparency has reduced the Fed's ability to engage in truly discretionary policy, says Wray. Given the lack of credible evidence that the Fed can impact important economic variables in a desired manner, and given the Fed's own doubts about the relations between those variables and inflation, a less preemptive Fed policy would seem to be in order.

The Case for an Environmentally Sustainable Jobs Program

MATHEW FORSTATER

Policy Note 2005/1

www.levy.org/pubs/pn05_1.pdf

Unemployment is a major cause of poverty, and many social problems are related to joblessness. According to Research Associate Mathew Forstater of the Center for Full Employment and Price Stability at the University of Missouri–Kansas City, modern capitalism fails to provide full employment, enough high-quality jobs, or ecological sustainability. He proposes a

Public Service Employment (PSE) program based on principles of functional finance to address these problems.

Forstater notes that unregulated or poorly regulated capitalism is both macroeconomically unsatisfactory (e.g., involuntary unemployment) and environmentally unsustainable. He also notes that full employment and environmental sustainability within conventional frameworks seem to be incompatible goals. Involuntary unemployment can result from deficiencies in aggregate demand (the effective demand problem) as well as from structural and technological change (the structural change problem). Moreover, policies addressing effective demand can exacerbate the structural change problem and vice versa.

The author further notes that Keynesian analysis does not recognize the functionality of unemployment and excess capacity in capitalist economies, so solutions to the unemployment problem must address the issue of functionality. If Keynesian demand management achieved full employment, it would be environmentally destructive because firms base their decisions on minimizing private costs, he says. Forstater states that the approach to unemployment needs to address both the effective demand and structural change problems, including the functionality issue, and be compatible with environmental sustainability. The question is whether flexible, sustainable full employment is possible.

The PSE program that is proposed by the author has been referred to as an "employer of last resort" or "job guarantee" government program. By creating an infinitely elastic demand curve for labor, the program acts as a strong countercyclical fiscal stabilizer and addresses the effective demand problem. And, unlike traditional Keynesian demand management, the PSE approach addresses the structural change problem and recognizes the functionality of unemployment. Offering the unemployed jobs in the PSE sector permits full employment without the rigidities associated with full employment in the private sector. The program can be designed to avoid structural bottlenecks, maintain a "reserve" of labor for the private sector, promote better wages and working conditions, use fewer natural resources, cause less pollution, reduce ecological damage, perform environmental services (e.g., a Green Jobs Corps), and serve as the basis for social policy in the workplace (e.g., a wage-benefit package would be the de facto minimum wage and could include health insurance). In addition, increased awareness of environmental and ecological issues by participants and the public would change consumption patterns, which is vital for long-term sustainability. Therefore, PSE employment would increase the quality of private and public sector jobs.

Ecological tax reform begins with the premise that current tax and regulatory structures of most modern countries are not consistent with ecological sustainability. However, the author believes that a PSE program based on the principles of functional finance can be combined effectively with ecological tax reform to further environmental sustainability. Taxes, tax credits, subsidies, quotas, licenses, low-interest loans, and other regulatory policies could penalize unsustainable behaviors and reward green ones. Forstater's objective is to encourage ecological tax reform and to rid proposals of "sound finance" principles.

Manufacturing a Crisis: The Neocon Attack on Social Security

L. RANDALL WRAY
Policy Note 2005/2
www.levy.org/pubs/pn05_2.pdf

A January 3, 2005, memo from Peter H. Wehner, White House Director of Strategic Initiatives, claims that Social Security reform will be the most important conservative undertaking of modern times. Senior Scholar L. Randall Wray of the University of Missouri–Kansas City objects to the notion that Social Security faces financial Armageddon. He notes that all objective analyses show Social Security running huge surpluses well past 2018 and he believes that projected total program revenues will cover all promised benefits. Wray claims that neoconservatives are bent on creating a nation free of social safety nets and that they put a negative spin on projected total program revenues.

The author points out that any future financial shortfall results from the logic of assumed low economic growth, rising longevity, and continuation of low fertility rates—not from the baby-boomer bulge. He also points out that very small changes to any one variable produce huge changes to projections of program finances carried through eternity.

Logically, if Social Security is treated as a separate government program, its finances must count trust fund assets (Treasury debt) and interest earnings. On the other hand, if Social Security is treated as part of the federal budget, then it cannot face insolvency unless the whole government goes bankrupt. In truth, a sovereign like the U.S. federal government cannot be forced into involuntary bankruptcy. Moreover, it is silly to think that any "reform" legislated today will constrain future policymakers.

Wray maintains that the neoconservatives know the situation, so their only real hope is to dismantle Social Security completely and to substitute "privatization," which would produce high management fees for Wall Street and low returns for tomorrow's seniors. He speculates that rising poverty rates among tomorrow's seniors could initiate a revival of New Deal fervor, which could lead to a bigger and better version of Social Security without the 1930s compromises.

Wray warns that neoconservatives may obfuscate the issues to the extent that they will succeed for the simple reason that voters will turn against the Social Security program if they are sufficiently confused. Neocons and others have successfully planted in the public mind the belief that the program faces a "financial crisis" at some point in the future. Wray expects that productivity (output per worker) will rise enough over the next half-century to ensure that two workers will produce as much as three today, and he does not believe the argument that privatization will spur faster productivity growth. He points out that budget deficits add to nongovernmental sector savings and allow private sector–led economic growth. If worst comes to worst, however, taxes will have to be raised or benefits cut, but that is best left to future voters, he says.

If we want government to encourage saving, it can be done at a cost no greater than President George W. Bush's privatization scheme and without dismantling Social Security. Rather than using $2 trillion of red ink to finance transition costs, the government could use the money to directly subsidize voluntary personal saving accounts by matching dollar-for-dollar deposits into approved financial instruments, says Wray. However, if we really want to support Social Security and prepare for tomorrow's seniors by increasing investment and productive capacity, we ought to put into place the infrastructure that will be needed in an aging society (e.g., nursing homes and other long-term care facilities). Both the private and government sectors will play an important role—contrary to the wisdom of neocons, who believe that the answer to any social problem is to reduce the size of government.

Explorations in Theory and Empirical Analysis

Measuring Capacity Utilization in OECD Countries: A Cointegration Method

ANWAR M. SHAIKH and JAMEE K. MOUDUD

Working Paper No. 415, November 2004
www.levy.org/pubs/wp415.pdf

To identify the influence of structural change in the economy, one must adjust for cyclical fluctuations and conjunctural events, such as wars, economic policies, and natural occurrences. Developing measures of capacity utilization and economic capacity are a way to distinguish between short-run and structural influences. Senior Scholar Anwar M. Shaikh of New School University and Research Associate Jamee K. Moudud of Sarah Lawrence College develop a simple methodology for measuring economic capacity (potential output). They find that their measure of capacity utilization is very different from measures based on aggregate production functions, such as those provided by the International Monetary Fund (IMF).

The authors distinguish between "engineering capacity" and "economic capacity," and note that the latter is not the same as "full employment output" (i.e., there is no reason to suppose that production at economic capacity would fully employ the existing labor force). They also note that actual data contain multiple cycles and exhibit long-term trends (from 3- to 5-year inventory cycles to 20-year fixed capital cycles), so identifying the cycles requires detrending (smoothing the data), which can result in spurious long cycles or misrepresent actual deviations from the trend. An alternative approach, therefore, should focus on a measure of capacity because cycles and conjunctural events are reflected in capacity utilization.

The authors outline various measures of capacity (e.g., the Wharton method), including surveys by the Bureau of Economic Analysis (BEA) and the Bureau of the Census, and the method used by the Federal Reserve Board (FRB) and the IMF. They find that an operative premise is that the economic system operates at, or near, full capacity. A further finding is that a direct measure of the rate of capacity utilization, such as the utilization rate of electric motors driving capital equipment, yields a much smoother trend than the FRB measure.

The authors' theoretical framework consists of an identity equation and two behavioral equations. In their model, they assume that output fluctuates around capacity over the long run, so that the actual rate of capacity utilization fluctuates around a desired, or normal, rate of capacity utilization. They also assume a general specification of technical change in which the capital-to-capacity ratio changes over time in response to autonomous and embodied technical changes.

As a benchmark test of their methodology, the authors use the cointegration framework to derive an econometric measure of the capacity utilization rate for the U.S. manufacturing sector. A comparison of the measure with Shaikh's census-based measure from an earlier study reveals a close correspondence between measures, which validates their methodology.

Using data on business sector real output and capital stock from the OECD Economic Outlook 71 (June 2002) database, the authors apply three tests to gauge the order of integration and estimate capacity and the rate of capacity utilization, which they compare to corresponding estimates from the IMF. They find that their measures of capacity do not simply "thread-through" the actual level of output, as do smoothed and filtered methods, particularly for countries such as Austria, Canada, and the United Kingdom. They also find that the measures of capacity utilization derived from cointegration are different and exhibit a wider range of variation from those provided by the IMF.

According to Shaikh and Moudud, their method has several advantages: (1) it only requires data on output and capital stock, which is widely available across countries and industries, and (2) it closely replicates a previously developed census-based measure of U.S. manufacturing capacity utilization. They suggest that the cointegration method could be tested for structural breaks in the cointegration equation or applied at the industry level and to variables, such as employment and profits, in order to assess the long-term trends of technical change and profitability.

INSTITUTE NEWS

New Research Associate

The Levy Institute welcomes STEPHANIE SEGUINO, an associate professor and chair of the Economics Department at the University of Vermont. Her teaching and research interests include macroeconomics, gender, and development; income distribution and poverty; effects of globalization on gender inequality; and determinants and measurement of well-being. She has collaborated with the AFL-CIO, Center for Global Development, United Nations, and United Nations Research Institute for Social Development (UNRISD) in this work. Recent publications include "Promoting Gender Equality through Labor Standards and Living Wages: An Exploration of the Issues," in E. Kupier and D. Barker, eds., *Feminist Perspectives on Gender and the World Bank* (forthcoming); "Why Are Women in the Caribbean So Much More Likely than Men to Be Unemployed?" *Social and Economic Studies,* Vol. 52, No. 4, 2003; "Does Gender Matter for Aggregate Saving? An Empirical Analysis" (with M. S. Floro), *International Review of Applied Economics,* Vol. 17, No. 2, 2003; "Is Economic Growth Good for Well-Being? Evidence of Gender Effects in Latin America and the Caribbean," background paper for the Center for Global Development, 2003; and "Macroeconomic Effects of Reducing Gender Wage Inequality in an Export-Oriented, Semi-Industrialized Economy" (with R. Blecker), *Review of Development Economics,* Vol. 6, No. 1, 2002. Seguino earned a Ph.D. from American University in 1994. Previously, she worked in Haiti for the U.S. Agency for International Development, researching the effect of export taxes on coffee farmers.

New Levy Institute Book

New Book in Levy Institute Book Series
Induced Investment and Business Cycles

HYMAN P. MINSKY

Edited and with an introduction by Dimitri B. Papadimitriou

Edward Elgar Publishing 2004

This unique volume publishes for the first time the original Ph.D. thesis of the late Hyman P. Minsky, who was a scholar at the Levy Institute and an innovative thinker on financial markets. Levy Institute President Dimitri B. Papadimitriou's introduction places the thesis in a modern context and explains its relevance today.

The thesis explores the relationship between induced investment, financing constraints, market structure, and the determinants of aggregate demand and business cycle performance. The book provides a window on Minsky's subsequent development of financial Keynesianism and his "Wall Street" paradigm, as he investigates the relevance of the accelerator-multiplier models of investment to individual firm behavior in undertaking investment. He explores uncertainty, the coexistence of other market structures, and the behavior of the monetary system, and he discusses his findings on business cycle theory and economic policy. In assessing the assumptions underlying the structure and coefficient values of the frequently used accelerator models, the book addresses their limitations and inapplicability to real-world situations in which the effect of financing conditions on the balance sheet structures of individual firms plays a crucial and determining role.

Upcoming Events

Conference: 15th Annual Hyman P. Minsky Conference, "Economic Imbalance: Fiscal and Monetary Policy for Sustainable Growth"

The Levy Economics Institute of Bard College

April 21–22, 2005

This year's Minsky conference will draw upon public discussions on the state of the U.S. and world economies in the context of current economic trends and their implications. Topics to be discussed include fiscal and monetary policies for continued growth and employment; brutal gyrations in the currency markets and the consequent exchange-rate misalignments, as well as possible cures; and the U.S. trade deficit, particularly its impact on employment and the conduct of monetary and fiscal policies. The international economic role of the United States will be examined in view of the current international economic landscape. Participants in the conference will include Lakshman Achuthan, Economic Cycle Research Institute; Bruce C. Kasman, JPMorgan Chase; Donald L. Kohn, Federal Reserve Board of Governors; James W. Paulsen, Wells Capital Management; Sandra Pianalto, Federal Reserve Bank of Cleveland; and Edwin (Ted) Truman, Institute for International Economics.

Conference: "Time Use and Economic Well-Being"

The Levy Economics Institute of Bard College

October 28–29, 2005

The conference will cover issues and topics related to time allocation. The papers will utilize time-use data in:

- investigating the determinants of time allocation by gender and other demographic and economic characteristics (e.g. by family type or employment status)
- valuing unpaid household work
- developing measures of individual or household economic well-being that include unpaid household production
- the distribution of household production and augmented measures of household well-being

Other papers will address:

- problems of statistical methodology and data in dealing with the topics listed above
- problems associated with theoretical perspectives and models used in dealing with the topics listed above
- incorporation of the value of household production in national income accounts
- international comparisons of the topics listed above

The conferences will take place at the Levy Institute, which is located in Annandale-on-Hudson, about 90 miles north of New York City in the Hudson River Valley.

Registration and program information is posted on the Levy Institute website, www.levy.org.

Publications and Presentations by Levy Institute Scholars

RANIA ANTONOPOULOS *Research Scholar*
Publication: Book review of *Global Economic Involvement: A Synthesis of Modern International Economics* by H. Peter Gray, *Eastern Economic Journal*, Fall 2004.
Presentation: "Macroeconomics and the Care Economy: Time Use Studies, Economic Well-Being, and Social Accounting Matrix Analysis," workshop on Women's Unpaid Work and the Care Economy sponsored by Columbia University, Sciences Po, and the United Nations Development Programme, Sciences Po, Paris, December 8–10, 2004.

CLAUDIO H. DOS SANTOS, *Research Scholar*
Publication: "The Role of Monetary Policy in Post-Keynesian Stock-Flow Consistent Macroeconomic Growth Models" (with G. Zezza) in *Central Banking in the Modern World, Alternative Perspectives*, Marc Lavoie and Mario Seccareccia, eds., Cheltenham, U.K., and Northampton, Massachusetts: Edward Elgar Publishing, Inc., 2004.
Presentation: "A Simplified Stock-Flow Consistent Post-Keynesian Growth Model" (with G. Zezza), Eastern Economic Association annual meetings, New York, March 4–6.

JAMES K. GALBRAITH *Senior Scholar*
Publications: "Estimating the Inequality of Household Incomes: Toward a Dense and Consistent Global Data Set (with H. Kum), *Review of Income and Wealth*, Series 51, No. 1, March 2005; "Tracking the Rise of Inequality in Russia and China," *WIDER Angle*, 2:2005; "Global Inequality and Global Policy," *Journal of Catholic Social Thought*, Vol. 2, No. 1, 2005; "Democracy Inaction," *Salon*, November 30, 2004; "Waiting to Vote," *Salon*, November 3, 2004; "Abolish Election Day," TheNation.com, November 29, 2004; "Apocalypse Not Yet," TomPaine.com, December 6, 2004.

GREG HANNSGEN *Resident Research Associate*
Presentation: "Gibson's Paradox, Monetary Policy, and the Existence of Cycles," Eastern Economic Association annual meetings, New York, March 4–6.

HYUNSUB KUM *Research Scholar*
Publication: "Estimating the Inequality of Household Incomes: Toward a Dense and Consistent Global Data Set (with J. K. Galbraith), *Review of Income and Wealth*, Series 51, No. 1, March 2005.

DIMITRI B. PAPADIMITRIOU *President*
Presentations: Interview regarding the U.S. current account deficit with Andy Robinson, *La Vanguardia,* November 19, 2004; interview regarding Alan Greenspan on the occasion of his honorary degree award at the University of Edinburgh, BBC Scotland, February 2; interview regarding social security privatization and the experiences of such plans in Latin America, Britain, and Eastern European economies with Jane Bussey, *Miami Herald*, February 18; "How Fragile Is the U.S. Economy?" at Sun Yat-Sen University, Guangzhou, China, March 14.

EDWARD N. WOLFF *Senior Scholar*
Publications: "The Concept and Measurement of Asset Poverty: Levels, Trends, and Composition for the U.S., 1983–2001" (with R. Haveman), *Journal of Economic Inequality*, Vol. 2, No. 2, August 2004; "Asset Poverty in the United States, 1984–99: Evidence from the Panel Study of Income Dynamics" (with A. Caner), *Review of Income and Wealth*, Series 50, No. 4, December 2004; "Reddito, distribuzione del" ["Income Distribution"] (with C. D'Ambrosio), in *Enciclopedia del Novecento, Instituto della Enciclopedia Italiana–2004*; book review of *Low-Wage America: How Employers are Reshaping Opportunity in the Workplace*, Eileen Appelbaum, Annette Bernhardt, and Richard J. Murnane, eds., *Journal of Socio-Economics*, Vol. 3, No. 1, February 2005.
Presentations: "Sources and Consequences of Downsizing in U.S. Manufacturing," conference on Job Loss: Causes, Consequences, and Policy Responses, Federal Reserve Bank of Chicago, November 18–19, 2004; "An Overall Assessment of the Distributional Consequences of Government Spending and Taxation in the U.S., 1989 and 2000" (with A. Zacharias), CEPA seminar, New School University, New York, December 8, 2004; *All Things Considered–Weekend Edition*, with Jennifer Ludden, NPR Radio, December 18–19, 2004; "The Levy Institute Measure of Economic Well-Being, United States, 1989–2001" (with A. Zacharias and A. Caner), Society of Government Economists, Philadelphia, January 7–9; *Hodo–2001*, Fuji TV,

Japan, March 5; "The Levy Institute Measure of Economic Well-Being, United States, 1989–2001" (with A. Zacharias and A. Caner) and "An Overall Assessment of the Distributional Consequences of Government Spending and Taxation in the United States, 1989 and 2000" (with A. Zacharias), Eastern Economic Association annual meetings, New York, March 4–6.

L. RANDALL WRAY *Senior Scholar*

Publications: "A Review of Economics, Bureaucracy, and Race," *Journal of Economic Issues,* December 2004; "Full Employment and Social Justice" (with M. Forstater), *The Institutionalist Tradition in Labor Economics*, Dell Champlin and Janet Knoedler, eds., Armonk, N.Y.: M. E. Sharpe, Inc., 2004; *Contemporary Post Keynesian Analysis*, ed. (with M. Forstater), Cheltenham, U.K.: Edward Elgar Publishing Limited, 2005; *Money, Financial Institutions, and Financial Instability*, ed. (with M. Forstater), Cheltenham, U.K.: Edward Elgar Publishing Limited, forthcoming; "In Defense of Employer of Last Resort: a Response to Malcolm Sawyer" (with W. Mitchell), *Journal of Economic Issues*, March 2005.

Presentations: "Full Employment through a Job Guarantee," 6th Path to Full Employment Conference, University of Newcastle, Australia, December 8–10, 2004; "The Credit Money and State Money Approaches," Third Australian Society of Heterodox Economists Conference, University of New South Wales, Australia, December 13–14, 2004; "Leakages and Potential Growth," Association of American Law Schools annual meeting, San Francisco, January 6; "A Case Study of Argentina's Jefes Program" (with P. Tcherneva), Association for Evolutionary Economics section at the Allied Social Science Association's annual meetings, Philadelphia, January 7–9.

AJIT ZACHARIAS *Research Scholar*

Presentations: "The Levy Institute Measure of Economic Well-Being, United States, 1989–2001" (with E. N. Wolff and A. Caner), International Society for Quality of Life Studies, Philadelphia, November 10–14, 2004; "The Levy Institute Measure of Economic Well-Being, United States, 1989–2001" (with E. N. Wolff and A. Caner), International Conference on Globalization, Inequality, and Poverty, University of Utah, Salt Lake City, November 18–19, 2004; "An Overall Assessment of the Distributional Consequences of Government Spending and Taxation in the U.S., 1989 and 2000" (with E. N. Wolff), CEPA seminar, New School University, New York, December 8, 2004; "The Levy Institute Measure of Economic Well-Being, United States, 1989–2001" (with E. N. Wolff and A. Caner), Society of Government Economists, Philadelphia, January 7–9; "The Levy Institute Measure of Economic Well-Being, United States 1989–2001" (with E. N. Wolff and A. Caner) and "An Overall Assessment of the Distributional Consequences of Government Spending and Taxation in the United States, 1989 and 2000" (with E. N. Wolff), Eastern Economic Association annual meetings, New York, March 4–6.

GENNARO ZEZZA, *Research Scholar*

Publication: "The Role of Monetary Policy in Post-Keynesian Stock-Flow Consistent Macroeconomic Growth Models" (with C. H. Dos Santos) in *Central Banking in the Modern World, Alternative Perspectives*, Marc Lavoie and Mario Seccareccia, eds., Cheltenham, U.K., and Northampton, Massachusetts: Edward Elgar Publishing, Inc., 2004.

Presentation: "A Simplified Stock-Flow Consistent Post-Keynesian Growth Model" (with C. H. Dos Santos), Eastern Economic Association annual meetings, New York, March 4–6.

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